GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:5395
ANSWERED ON:22.12.2000
CREDIT POLICY OF RBI
ALE NARENDRA;LAXMINARAYAN PANDEY;SHIVRAJ SINGH CHOUHAN

Will the Minister of FINANCE be pleased to state:

(a) whether the Reserve Bank of India has recently announced the currency and credit policy for the busy season ahead;

(b) if so, the salient features thereof.

(c) whether various banks and financial institutions have started announcing a cut on their prime lending rates in respect of commercial loans in pursuance of the directives laid down in `Busy Season` loan policy of the Reserve Bank of India;

(d) if so, the details in this regard; and

(e) the extent to which this policy is likely to be helpful for economic reforms?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATIL)

(a) The Mid-Term Review of Monetary and Credit Policy for 2000-2001 was announced on October 10, 2000.

(b) A statement is attached

(c) & (d) The Reserve Bank of India (RBI) does not prescribe lending rates of banks and financial institutions except in case of export credit. With the exception of export credit , banks and financial institutions are free to prescribe their own lending rates, including the prime lending rate (PLR), after duly taking into consideration such factors as cost of funds, transaction cost, etc.As regards export credit, the Reserve Bank did not announce any change in interest rate in its Mid-Term Review.

(e) Since sound financial and monetary policies are conducive for the success of economic reforms, the policy measures announced by RBI in its Mid-Term Review of Monetary and Credit Policy would be helpful for economic reforms.

Statement referred to in answer to part (b) of Lok Sabha Unstarred Question No. 5395 regarding Credit Policy of RBI for December 22, 2000

The Salient Features of the Mid-Term Review of Monetary and Credit Policy for 2000-2001 are the following:-

- The Reserve Bank of India (RBI) issued guidelines for issue of Commercial Paper (CP). These guidelines will enable companies in the services sector to easily meet their short-term working capital needs.

- Restriction on transferability period for Certificates of Deposits (CDs) issued by both banks and financial institutions was withdrawn to provide flexibility and depth to the secondary market.

- Rating has been made mandatory for the term deposits accepted by All -India Financial Institutions (AIFIs)

- RBI issued final guidelines on categorisation and valuation of investment portfolio of banks. As per these guidelines, banks are required to classify the entire investment portfolio(including SLR securities and non-SLR securities) under three categories, viz. ` Held to Maturity`, `Available for Sale` and `Held for Trading` . Out of these, the investment portfolio ` Held to Maturity` should not exceed 25 percent of total investment, subject to certain criteria.

- In order to facilitate quick export-related payments and reduce transaction costs, RBI restored fully the earlier entitlements in respect of Exchange Earners Foreign Currency (EEFC) accounts of Export- oriented units, units in Export Processing Zone, Software Technology Park or Electronic Hardware technology park as prevalent prior to August 14, 2000, i.e. 70 percent (from 35 percent). Similarly entitlements regarding inward remittances in respect of others was restored to 50 percent (from 25 percent).

- RBI issued guidelines on bank financing of equities and investment in shares

- In order to provide more operational autonomy to banks, banks have been permitted to formulate transparent policy for charging penal interest rates with the approval of their Boards

- Owing to factors such as the improvement in the payment and settlement systems, recovery climate and upgradation of technology in the banking sector, the concept of `past due` (grace period of 30 days) was dispensed with, with effect from March 31, 2001

- Public sector banks have been advised to complete the process of opening /operationalising small scale industries branches by December 31, 2000 as a follow up of the Finance Minister`s budget speech on February 29,2000.